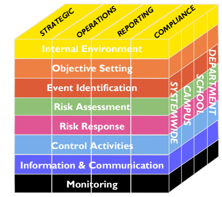
University of California Office of the President
Enterprise Risk Management (ERM)



Bulletin #8

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Today's Risk Management

A survey conducted by Marsh and RIMS* of nearly 900 risk management professionals clearly shows risk management functions and best practices fall into three levels, as indicated below. These three levels of risk management—traditional, progressive, and strategic—are the perspective from which we examine risk.

Traditional Risk Management
- Risk Identification
- Loss Control
- Claims Analysis
- Insurance and Risk-Transfer Methods

Traditional risk management involves many long-established, routine functions. These include identifying risk, using various risk-control measures to eliminate or mitigate loss, analyzing claims and claims trends, and handling the details of insurance and other risk-transfer methods.

Progressive Risk Management
Traditional +
- Alternative Risk Financing
- Business Continuity
- Total Cost of Risk
- Education and Communication

Progressive risk management encompasses all of the concerns of traditional risk management, but adds alternative risk financing (such as self-insurance, captives, and risk-capital products), business-continuity planning, measurement of the total cost of risk (TCOR), and education of and communication with the rest of the organization about risk and its management.

Strategic Risk Management
Traditional +
Progressive +
- Enterprise-wide Risk Management
- Indexing of Risk
- Use of Technology

Strategic risk management goes further still, incorporating all of the areas that fall in both traditional and progressive risk management, but adding the C-suite view of the totality of risk. The practitioner of strategic risk management views risk as something to optimize, not just to mitigate or avoid, taking an enterprise-wide view of risk. Risk is indexed against the organization itself, year-over-year, and against competitors. And risk management information systems (RMIS) and other technologies play a large role in managing risk.

The University's Risk Management Program continues to mature and become more strategic.

Major functions of the Office of Risk Services (OPRS) include:
- Developing and implementing Enterprise Risk Management (ERM) to identify risks and controls systemwide, resulting in reduced cost and efficiencies
- Identifying risk and developing strategies to minimize the impact of risk
- Developing a center of excellence for managing risk, drawing on the expertise of highly-skilled individuals throughout the University

* Risk and Insurance Management Society, www.rims.org

- Reducing costs and improving safety by executing new ideas and strategic plans in a rapid manner
- Risk Services core responsibilities:
    - Provide claims management services
        - Workers' Compensation Program
        - Professional Medical & Hospital Liability Program
        - General Liability Program
        - Auto Program
        - Employment Practices Liability Program
        - Property Program
        - Fine Arts Program
        - Construction Program
    - Purchase insurance systemwide and develop alternative risk financing mechanisms (by self-insuring we save over $105.6 million each year when considering the cost of first-dollar coverage)
    - Develop loss control programs to reduce claims cost and provide leadership to Environmental Health & Safety (EH&S)
    - Emergency management and business continuity planning (UC Ready)
    - Enterprise Risk Management
    - Settlement of claims and litigation

Good risk management requires communication skills and an ability to establish close ties in many different parts of the organization. The traditional focus on organization-wide financial and hazard issues imparts an ability to understand how critical parts of the organization work on a detailed level.

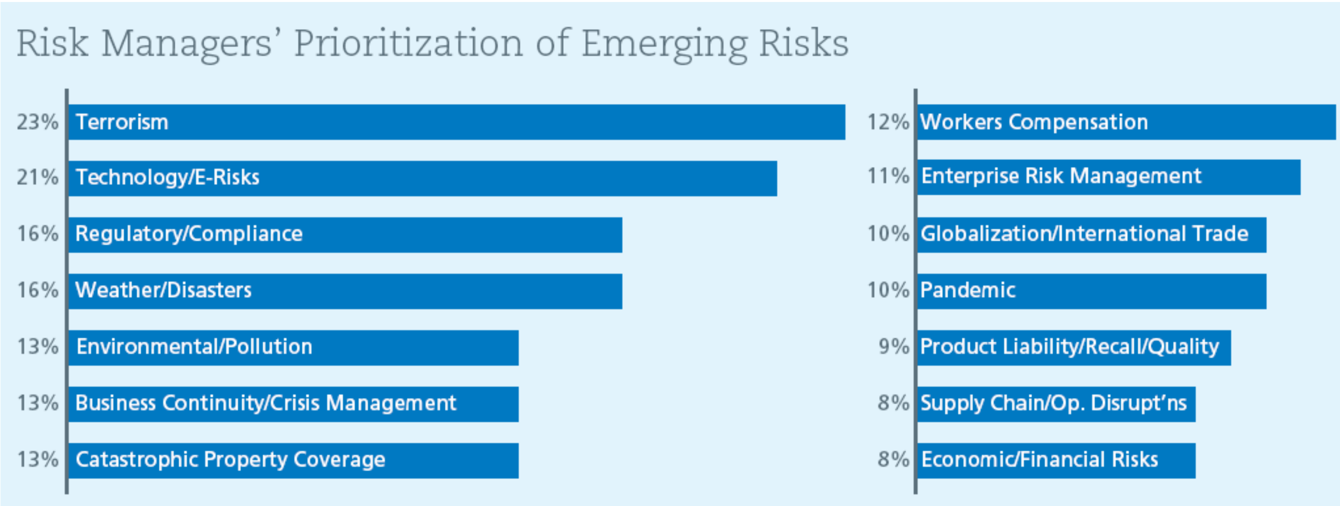
To strengthen ties and improve communication, OPRS supports the systemwide Risk Management Leadership Council (RMLC), an organization composed of the senior Risk Management leadership from the UC campuses, medical facilities, Office of the President, and Agriculture and Natural Resources. The Council works in partnership with the UC leadership to articulate goals, strategies, priorities, and solutions that support the University missions of teaching, research, public service and patient care. While respecting the essential independence of the individual UC entities, the Council seeks opportunities to address common Risk Management challenges and to advance the collective Risk Management priorities of its constituent organizations.

Risk management is becoming more important as a factor for analysts at credit-rating agencies. In November 2007, Standard & Poor's issued a Request for Comment indicating its intention to assign scores of ERM quality to all companies it reviews and to incorporate an ERM segment into its ratings reports.

In preparation for this greater scrutiny by analysts of risk management practices, organizations must be asking themselves three key questions that analysts may soon be asking:

- Does senior management know how much it is prepared to lose from all sources of risk over a given horizon (often a reporting period, but also over shorter horizons) to achieve its overall long-term financial objectives?
- Does senior management know where the top exposures are, both in terms of measured risks and unmeasured uncertainties?
- Is there an adequate understanding of the profile and mitigation of the potential losses from the top exposures?

Emerging risks like terrorism, weather disasters, and environmental issues are prompting organizations to hone their ability to deal with crises and keep operations going in the face of catastrophe. Based on the Marsh/RIMS survey, the following figure shows how the risk managers surveyed prioritized emerging risks.



The survey also found that ERM efforts are more prevalent today among organizations with a strong awareness of the risks posed by intellectual property, human capital, technology, and e-risk than among those holding more traditional notions of risk.

ERM benefits include:

- Improved risk-response decision process
- Increased ability to meet corporate strategic goals
- Minimized operational disruption
- Contingency planning: improved responsiveness to natural or other disasters
- Increased management and business-unit accountability
- Better allocation of capital and resources to address risk

Most institutions of higher education are in the process of implementing or have implemented ERM. UC is considered a leader in the area of enterprise risk management.

While there will always be a need for the functions of traditional risk management and progressive risk management, today's risk management programs must focus on the bigger need for strategic risk management.

To learn more, please visit the Risk Services website at http://www.ucop.edu/riskmgt/welcome.html and follow the "Enterprise Risk Management" link. If you have any questions, please contact Chief Risk Officer Grace M. Crickette (email grace.crickette@ucop.edu, telephone 510-987-9820).